THE REAL ESTATE ANALYSTS

The Real Estate ANALYST

JULY
1945

Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends....Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies .... Surveys....Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

VOLUME XIV

THE POST-WAR PRICE LEVEL

ALL the arguments being advanced to show that prices will be lower in the postwar period are based on the assumption that there has been a great increase in efficiency in the United States during the war and that post-war production can utilize these efficiencies in such a way that unit costs will be low.

The Department of Labor has released its annual report on output per man-hour and the labor cost per unit of production in a number of principal industries. These included three industries concerned primarily with construction - cement, lumber and timber products, and paints and varnishes. The tables below show these classifications from 1939 through 1944, both from the standpoint of output per man-hour and from the standpoint of unit labor cost.

OUTPUT PER MAN-HOUR

	1939	1940	1941	1942	1943	1944
Cement	100.0	100.4	108.3	108.4	94.7	84.5
Lumber and Timber Products	100.0	111.7	105.5	98.1	95.7	99.0
Paints and Varnishes	100.0	100.1	113.8	108.8	109.8	114.1

UNIT LABOR COST

	1939	1940	1941	1942	1943	1944
Cement	100.0	99.4	98.4	104.8	130.3	152.2
Lumber and Timber Products	100.0	94.9	110.3	137.6	161.6	169.7
Paints and Varnishes	100.0	103.2	97.3	111.5	117.5	117.2

It will be noticed that the output per man-hour has declined in cement and lumber and timber products and has advanced in the paint and varnish group. The second table indicates that the unit labor cost of cement was 52.2 per cent higher in 1944 than it was in 1939, that the unit labor cost for lumber and timber products was 69.7 per cent above the 1939 level and the unit labor cost for paints and varnishes was 17.2 per cent above the 1939 level. Wage rates have gone up much faster than efficiency has been increased, with the result that the cost of the article has increased radically.

Of course, it is true that there are wartime inefficiencies which will disappear at the end of the war but, on the other hand, it should be remembered that there is practically no sales resistance at the present time and sales expenses are very light. In the postwar period these expenses will increase and will probably compensate any increase in efficiency at that time.

The long spread in this report shows price, wage and rent relationships

(cont. on page 203)

OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

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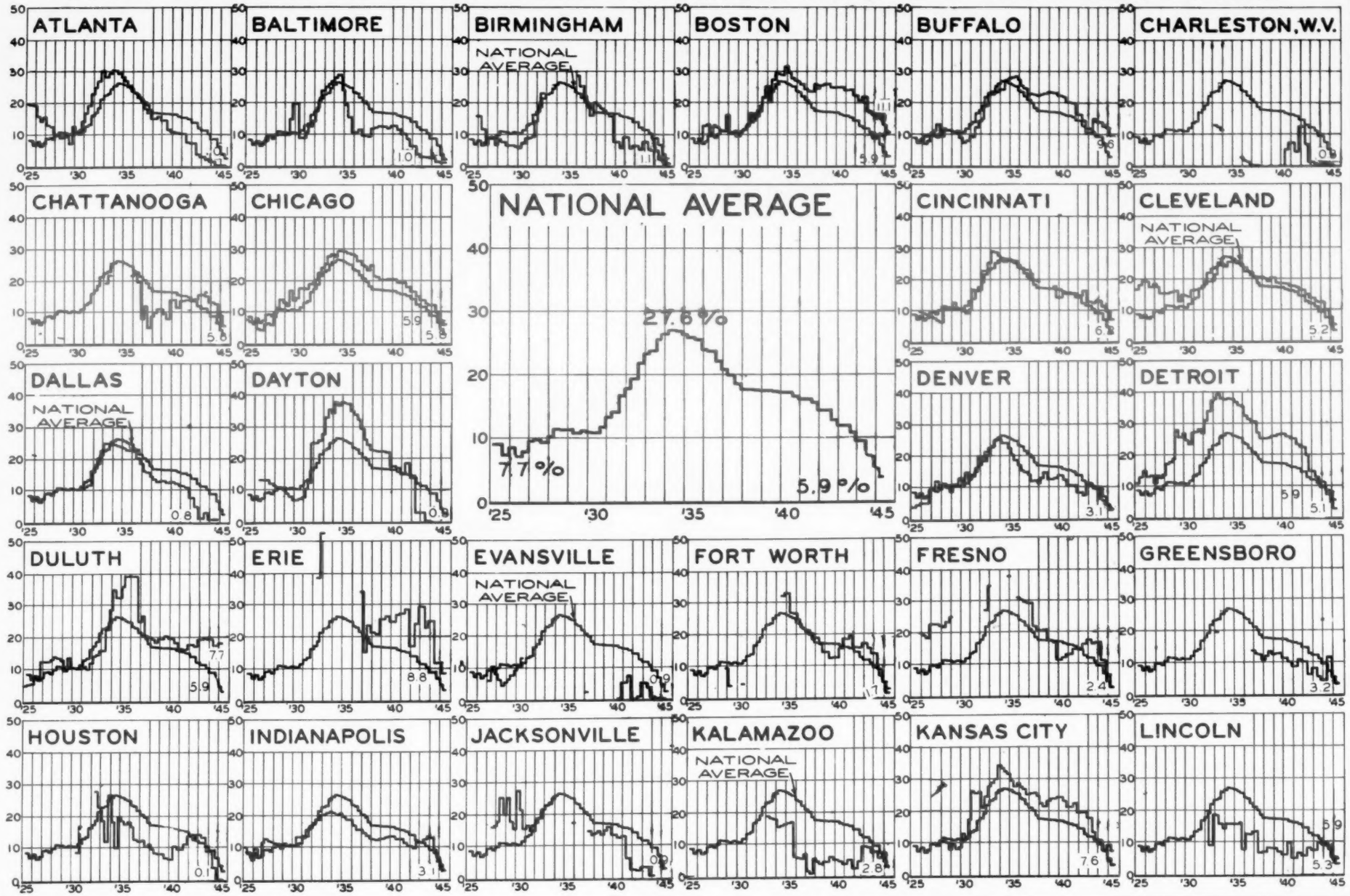

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OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

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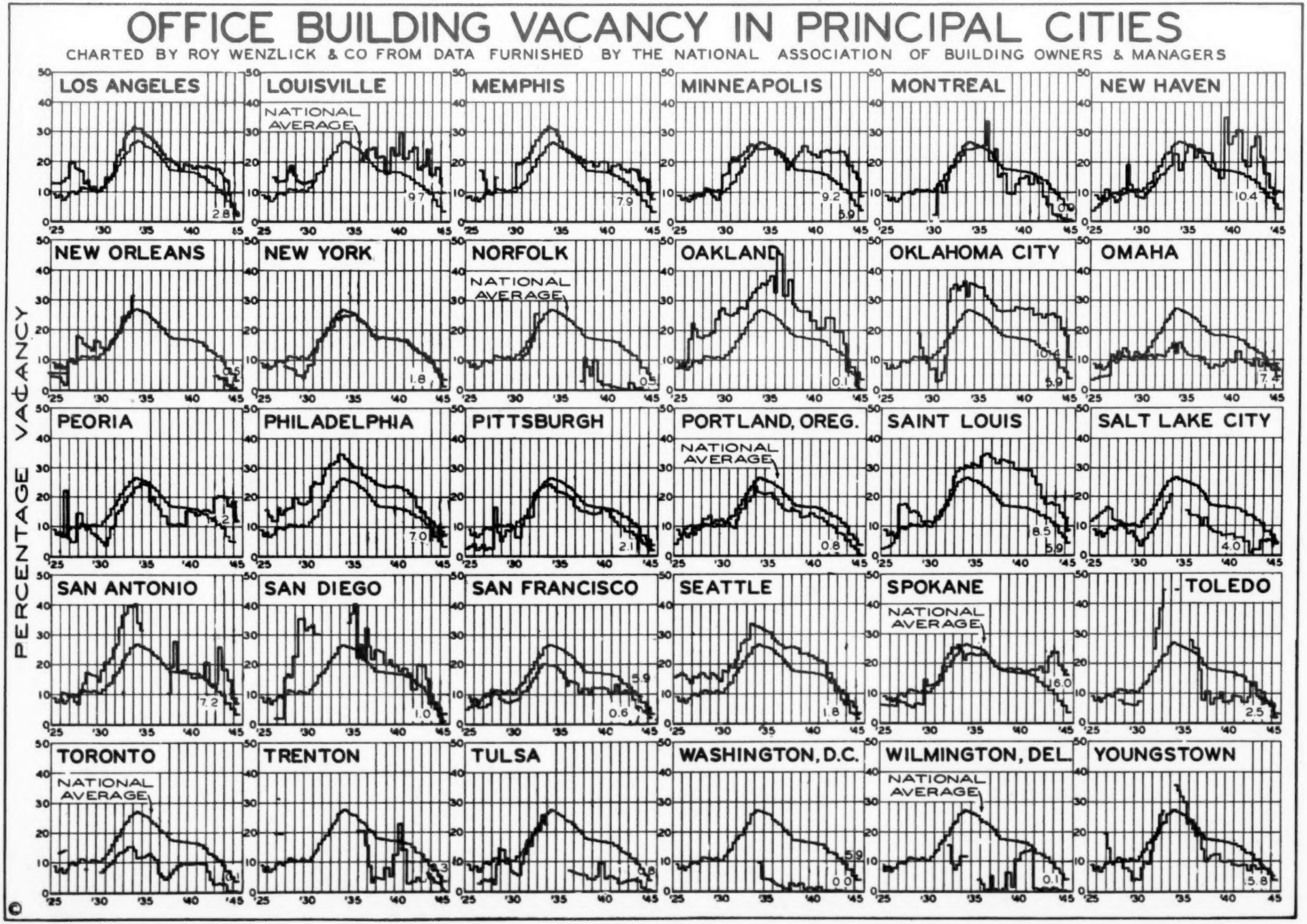

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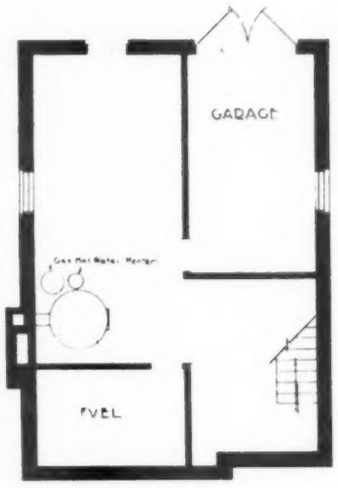
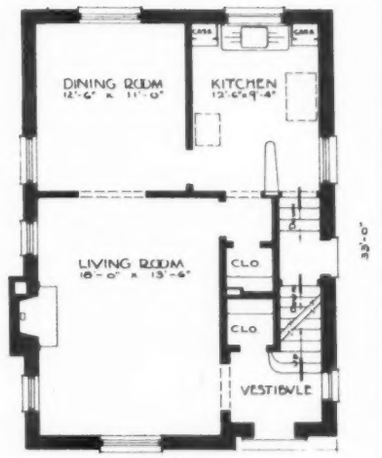
CONSTRUCTION COSTS OF BRICK RESIDENCE



BASEMENT PLAN

THE first construction cost figures prepared for the Real Estate Analyst appeared in September 1932 and showed the cost from 1913 to that time of building the brick residence illustrated on this page.

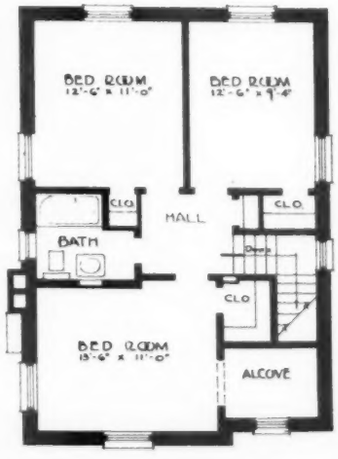
The general specifications of this residence are as follows: FOUNDATION - stone; WALLS - variegated matt brick, backed with 5 x 8 x 12 tile; ROOF - composition strip shingles; SHEET METAL WORK and FLASHING - 26 gauge galvanized iron; SASH - wood; DOORS - exterior, 1-3/4" fir - interior, 1-3/4" 8-panel maple; SCREENS - copper; JOISTS - 1st floor, 2 x 10 - 16" on center - 2nd floor, 2 x 10; ROOF RAFTERS - 2 x 6 - 18" on center; STUDDING - 2 x 4; INTERIOR TRIM - yellow pine, ivory enamel; PLASTER - 3 coats on wood lath; FLOORS - basement, cement - bath, flint tile - kitchen, oak - others, first grade 25/32" oak; INTERIOR WALLS - bath, ceramic tile - kitchen, plastered and painted - bedrooms, white finish plaster -living room, dining room and hall, tinted sponged texture; PLUMBING FIXTURES - tub, 60" full roll with apron and shower - lavatory, pedestal - toilet, high grade vitreous - sink, 60" double drain board, wide apron; ELECTRIC FIXTURES - appropriate to the building; HEATING PLANT, first grade warm air furnace; WATER HEATER - gas copper coil; BUILT-IN FEATURES - cedar closet - ironing board - cupboards in the kitchen, etc.; GARAGE - in basement; GARAGE DOORS - double swinging.



FIRST FLOOR PLAN

One of our older clients who was familiar with this brick building has recently asked for current construction costs and in the table on page 201 we are showing the total cost of building this building for all of the years through 1939, and for selected months since.

(cont. on page 201)



SECOND FLOOR PLAN

INCOME, PROPERTY EXPENSES, DEPRECIATION AND NET RETURN

IN the June 1945 issue of the Real Estate Analyst, reproduction costs for a thirty-family reinforced concrete apartment were estimated by years from 1913 to 1936 and by months from January 1937 to May 1945. On page 201 are given the gross income, the effective gross income, property expenses, and the net income by years from 1913 to 1944 and for the first half of 1945. The rental income by years was figured from rental data, and expenses were calculated from records collected in the appraisal of hundreds of apartment properties. It will be noticed that Gross Rents from a low in 1934 (excluding the lows from 1913 to 1918) increased in 1945 to 78 per cent of the peak rents in 1924, while Property Expenses which include Operating Expense (comprising janitor, utilities, heating and management), Maintenance and Repair Expense, and Fixed Expenses (comprising property taxes, fees and insurance) are today 105 per cent of the 1924 level. With the tight housing situation in St. Louis experienced during the war effort, the effectiveness of rent control is evidenced by the modest increase in rents from 1942 to 1945.

For the period from 1941 to 1945 the Office of Price Administration was consulted to determine the rental increases which probably would have been allowed under rent control regulations. A large part of net income increase during this period was due to increased occupancy. By comparison of the great increase in construction costs during the war as shown in the July issue of the Analyst with the increase in net income as shown on the chart on page 200 it is evident that there would have been little incentive to build such an apartment even if construction had been permitted.

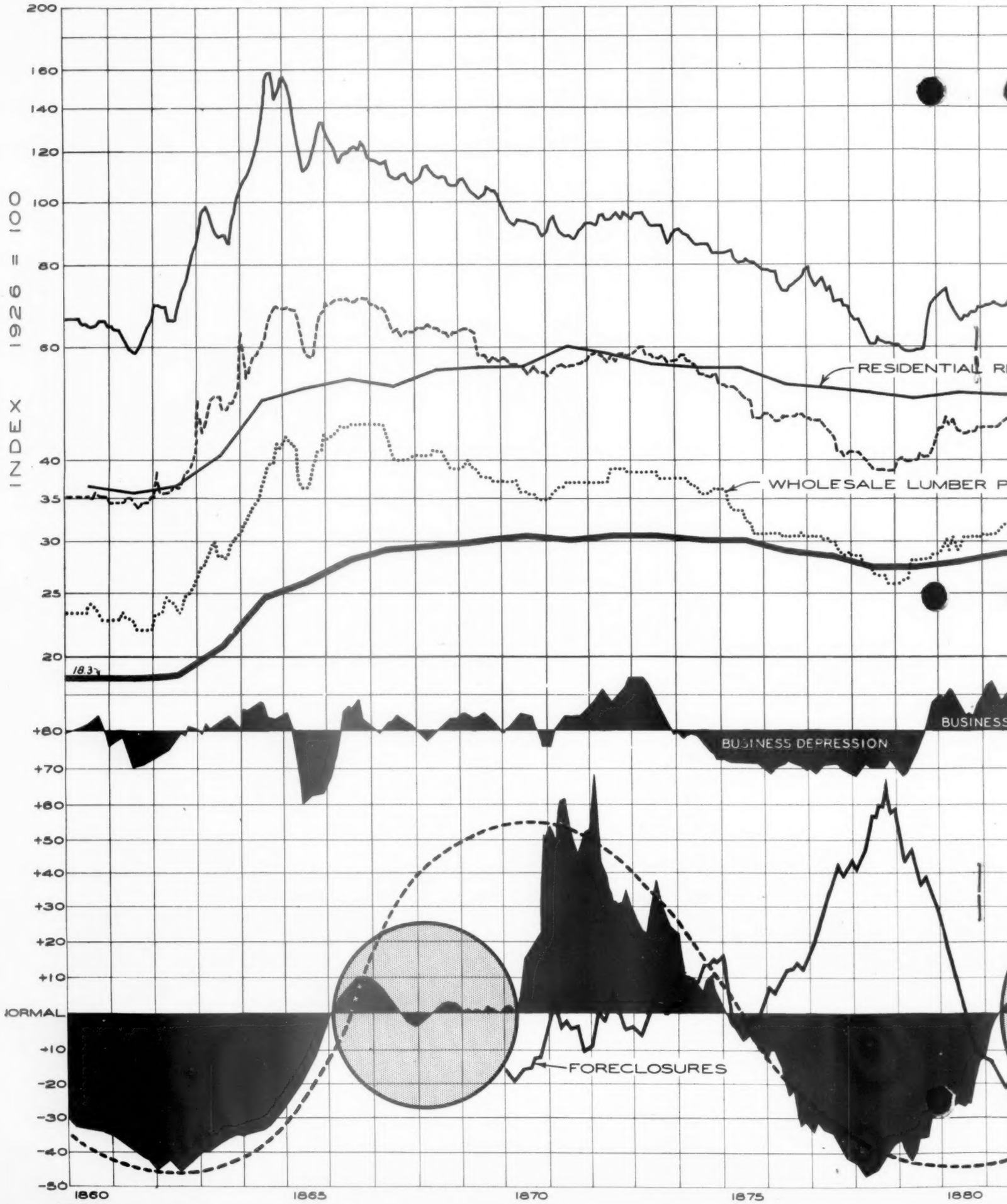
It will be noted that the rate of return line on the chart on page 202 was 6 per cent or above for only 5 years (1921 to 1925, inclusive) out of the 32 years shown. From 1925 to 1930 rental schedules were maintained at a high level but vacancies and concessions increased rapidly. In 1929 vacancies and concessions amounted to 20.6 per cent and by 1932 loss in gross income from this source was 27 per cent. The concession was merely a device used after the lush period of the twenties subsided to maintain a high 100 per cent rental income through a month or two free rent granted the tenant.

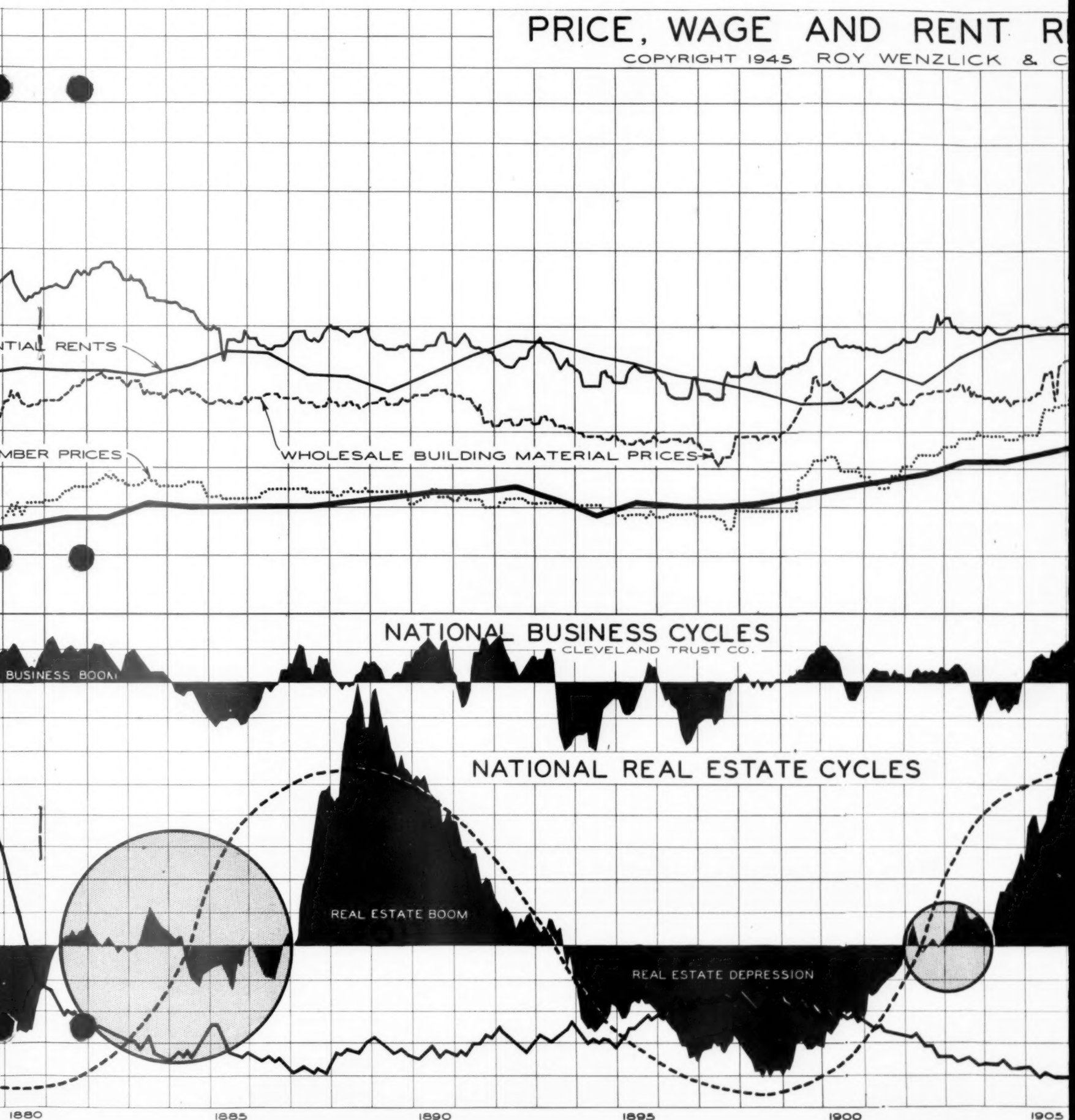
In order to indicate the incentive to construct such an apartment during the period from 1913 to date, the chart on page 202 has been prepared showing the net income before property taxes and depreciation. Depreciation has been calculated at 2 per cent of construction cost for each year. The net income after deducting taxes and depreciation is estimated in dollars and figured as a percentage of the total cost of land and improvements for each year.

It is believed that these figures represent the actual conditions in St. Louis with a reasonable degree of accuracy and are fairly representative of other metropolitan cities. The table gives the data on which our calculations are made for St. Louis and which can be adjusted to meet differing conditions in other cities if so desired.

The rate of return on the current cost of replacement after deducting depreciation represents the only sound measure of the incentive to build. A high rate causes a strong incentive, while a low rate takes away the incentive. From 1921 to 1925 inclusive the rate of return was above 6 per cent,

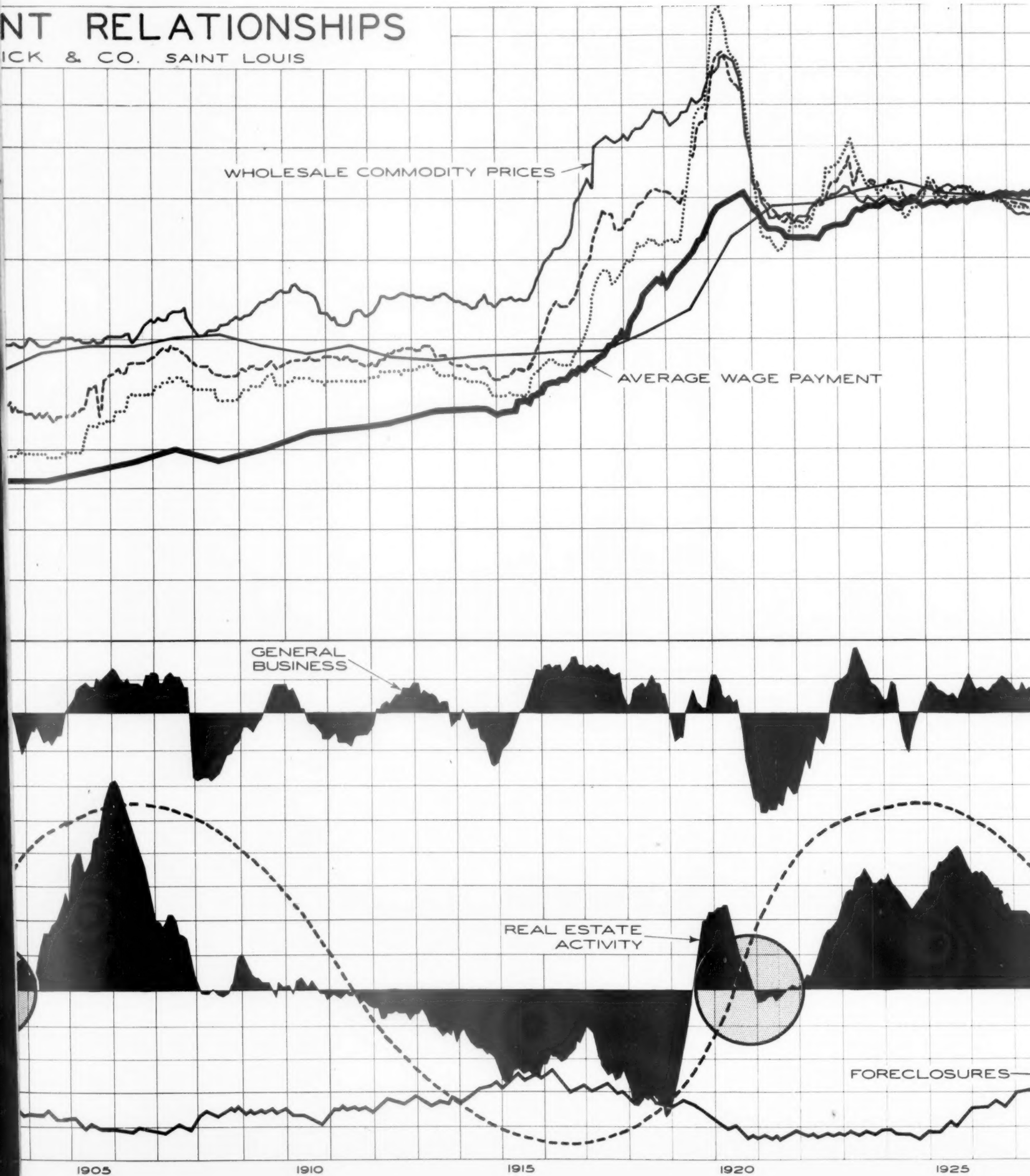
(cont. on page 203)

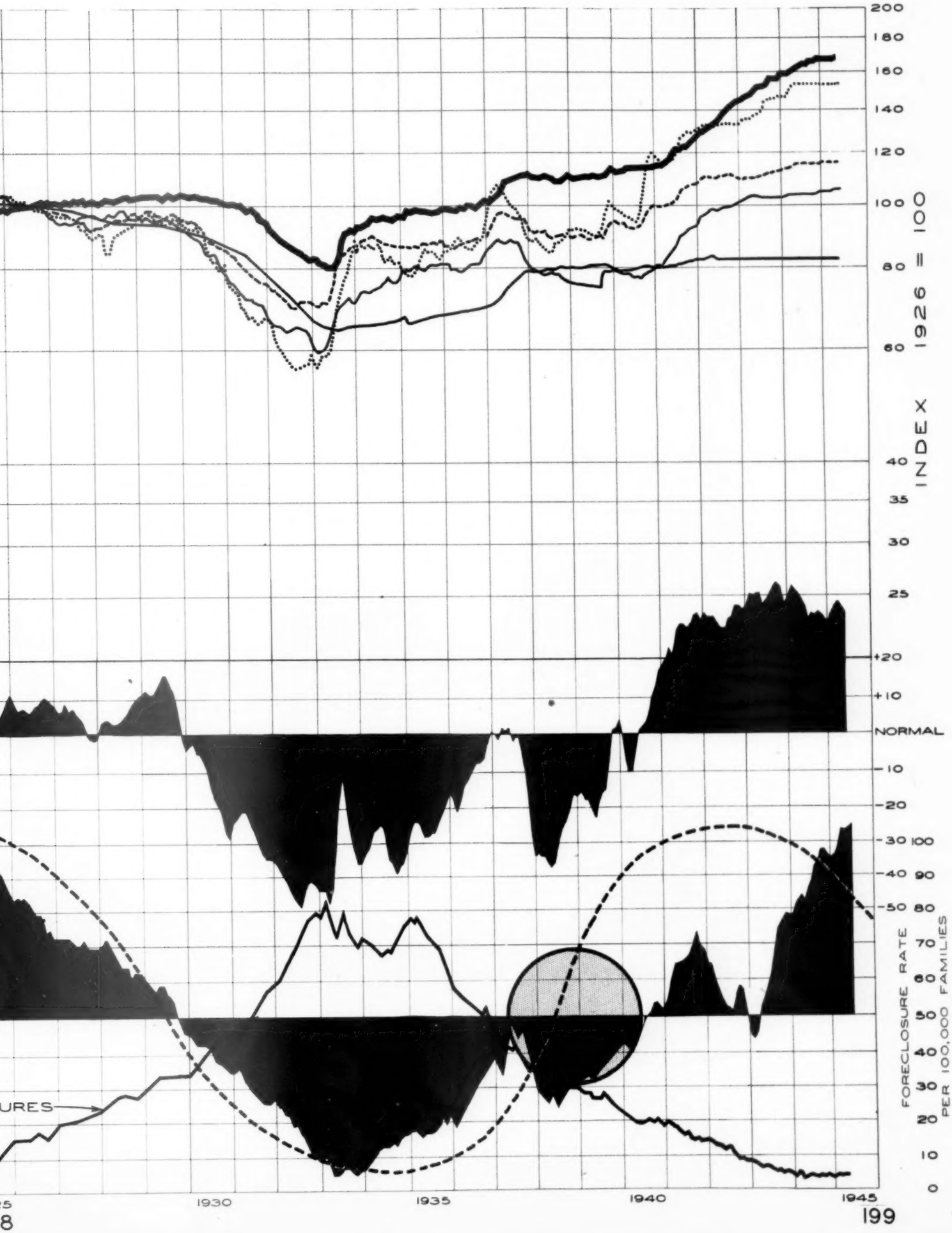

INDEX 1926 = 100
200
160
140
120
100
80
60
40
35
30
25
20
1837
RESIDENTIAL R
WHOLESALE LUMBER P
BUSINESS DEPRESSION
BUSINESS
+80
+70
+60
+50
+40
+30
+20
+10
NORMAL
-10
-20
-30
-40
-50
FORECLOSURES
1860
1865
1870
1875
1880

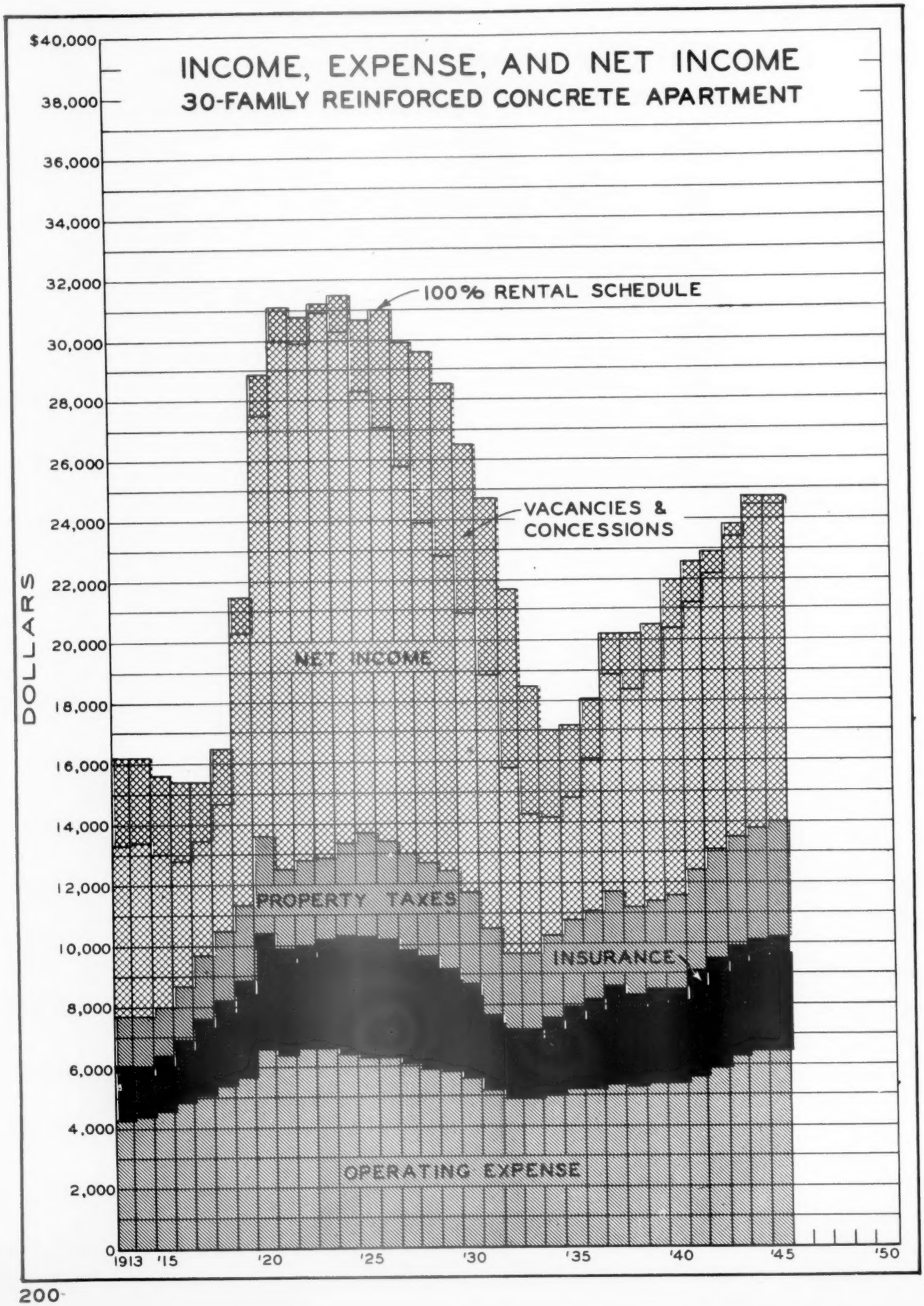

PRICE, WAGE AND RENT R
COPYRIGHT 1945 ROY WENZLICK & C
NTIAL RENTS
MBER PRICES
WHOLESALE BUILDING MATERIAL PRICES
NATIONAL BUSINESS CYCLES
CLEVELAND TRUST CO.
BUSINESS BOOM
NATIONAL REAL ESTATE CYCLES
REAL ESTATE BOOM
REAL ESTATE DEPRESSION
1880
1885
1890
1895
1900
1905

NT RELATIONSHIPS

ICK & CO. SAINT LOUIS




200
180
160
140
120
100
80
60
INDEX 1926 = 100
40
35
30
25
+20
+10
NORMAL
-10
-20
-30
-40
-50
100
90
80
70
60
50
40
30
20
10
0
FORECLOSURE RATE
PER 100,000 FAMILIES
URES
1930
1935
1940
1945


INCOME, EXPENSE, AND NET INCOME
30-FAMILY REINFORCED CONCRETE APARTMENT
DOLLARS
$40,000
38,000
36,000
34,000
32,000
30,000
28,000
26,000
24,000
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
100% RENTAL SCHEDULE
VACANCIES & CONCESSIONS
NET INCOME
PROPERTY TAXES
INSURANCE
OPERATING EXPENSE
1913
'15
'20
'25
'30
'35
'40
'45
'50

INCOME, PROPERTY EXPENSES, DEPRECIATION AND NET RETURN

30-FAMILY REINFORCED CONCRETE APARTMENT

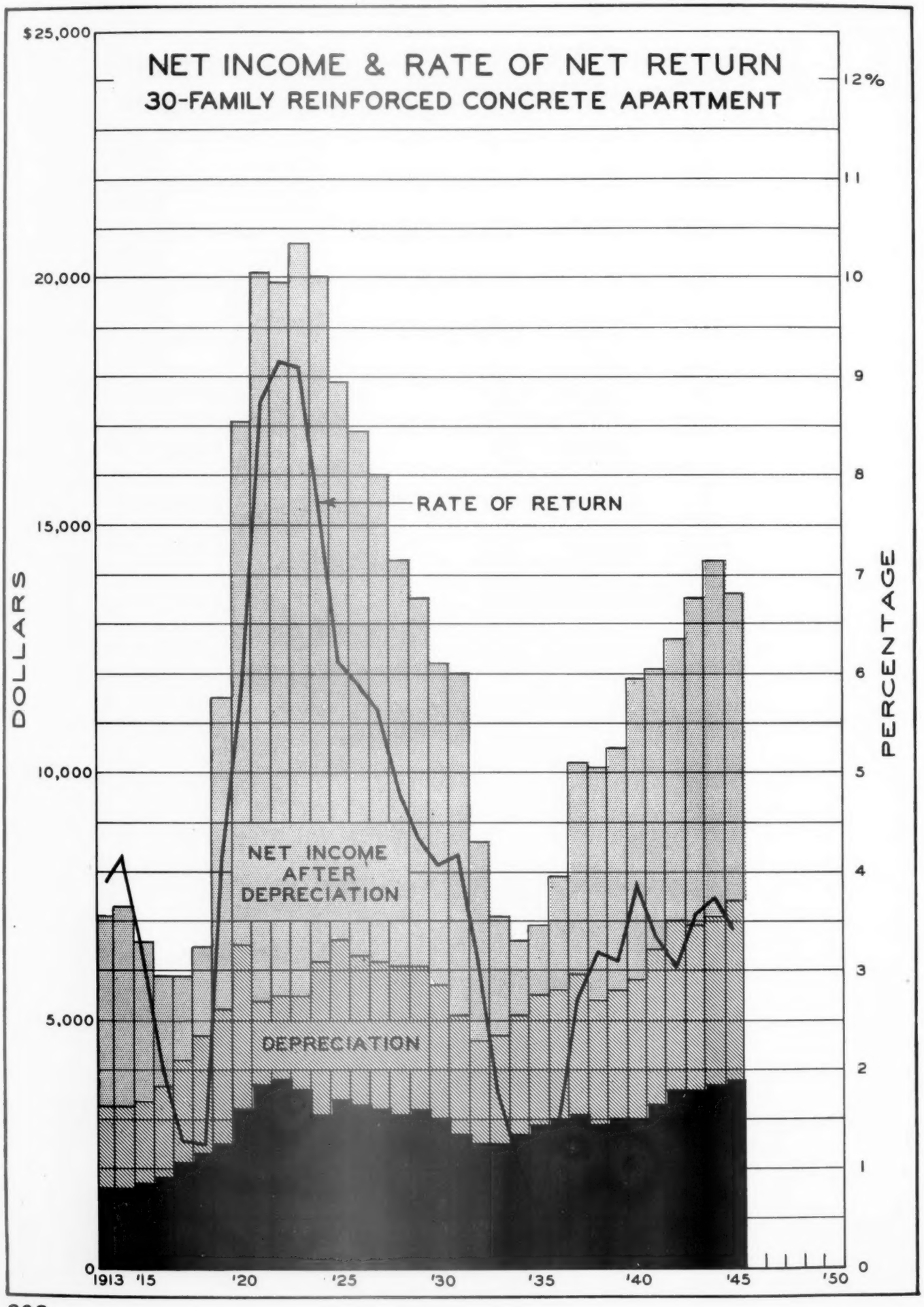
Year	100% Rental Schedule	Vacancies and Concessions	Total Operating Expense	Maintenance and Repair Expense	Property Taxes and Fees	Insurance	Net Income Before Depreciation	Depreciation	Net Return After Depreciation	Net Return to Total Cost
1913	$16,248	$2,988	$4,336	$1,522	$1,558	$257	$ 5,587	$1,691	$3,896	3.92%
1914	16,248	2,898	4,316	1,480	1,610	250	5,694	1,644	4,050	4.17
1915	15,558	2,608	4,591	1,520	1,660	257	4,923	1,687	3,235	3.23
1916	15,368	2,538	4,854	1,775	1,813	285	4,103	1,874	2,229	2.03
1917	15,368	1,898	5,113	2,175	2,063	333	3,786	2,177	1,609	1.29
1918	16,478	1,808	5,418	2,430	2,286	371	4,165	2,430	1,735	1.25
1919	21,508	1,258	5,714	2,663	2,501	406	8,966	2,669	6,297	4.16
1920	28,856	1,396	6,630	3,240	3,226	493	13,871	3,244	10,627	5.90
1921	31,080	1,110	6,393	3,050	2,671	420	17,436	2,772	14,664	8.73
1922	30,830	930	6,611	3,010	2,751	417	17,111	2,737	14,374	9.17
1923	31,226	310	6,597	3,190	2,606	441	18,082	2,899	15,183	9.10
1924	31,550	1,250	6,392	3,395	3,091	469	16,953	3,085	13,868	7.77
1925	30,720	2,470	6,290	3,535	3,346	490	14,589	3,214	11,375	6.13
1926	31,020	3,950	6,305	3,400	3,251	473	13,641	3,092	10,549	5.88
1927	29,920	4,120	6,102	3,285	3,166	455	12,792	2,985	9,807	5.62
1928	29,620	5,720	5,934	3,220	3,146	447	11,153	2,931	8,222	4.80
1929	28,546	5,896	5,842	2,920	3,206	443	10,239	2,905	7,334	4.34
1930	26,480	5,620	5,621	2,692	3,016	374	9,157	2,697	6,460	4.08
1931	24,730	5,830	5,218	2,162	2,731	368	8,421	2,410	6,011	4.19
1932	21,656	5,856	4,922	1,935	2,496	327	6,120	2,110	4,010	3.10
1933	18,456	4,156	4,912	1,990	2,508	336	4,554	2,209	2,345	1.80
1934	17,018	2,818	5,036	2,200	2,698	373	3,893	2,443	1,450	1.04
1935	17,198	2,438	5,178	2,325	2,868	394	3,995	2,584	1,411	0.96
1936	18,056	1,946	5,160	2,646	2,948	403	4,953	2,653	2,300	1.52
1937	20,160	1,310	5,402	2,805	3,098	427	7,118	2,807	4,311	2.70
1938	20,160	1,720	5,348	2,570	2,868	392	7,262	2,573	4,689	3.20
1939	20,530	1,550	5,384	2,660	2,978	407	7,551	2,660	4,891	3.11
1940	21,980	1,539	5,384	2,744	3,030	418	8,865	2,745	6,120	3.89
1941	22,580	1,355	5,561	3,058	3,310	465	8,831	3,060	5,771	3.34
1942	22,860	686	5,914	3,058	3,610	510	9,082	3,345	5,737	3.06
1943	23,760	360	6,315	3,100	3,570	504	9,911	3,310	6,601	3.56
1944	24,660	247	6,476	3,100	3,690	522	10,625	3,440	7,185	3.74
1945	24,660	247	6,476	3,200	3,820	542	10,375	3,570	6,805	3.42

(cont. from page 194)

COST OF BUILDING A SIX-ROOM BRICK RESIDENCE IN ST. LOUIS

1913	$4241	1922	$6953	1931	$5573
1914	4254	1923	7492	1932	5053
1915	4160	1924	7817	1933	5148
1916	4410	1925	8026	1934	5694
1917	5216	1926	7725	1935	5961
1918	5762	1927	7503	1936	6222
1919	6514	1928	7304	1937	6829
1920	8006	1929	7063	1938	6157
1921	6728	1930	6258	1939	6400

1940 - July	$6643	
October	6926	
November ...	6947	
1941 - June	7407	
July	7722	
1945 - July	8258	


NET INCOME & RATE OF NET RETURN
30-FAMILY REINFORCED CONCRETE APARTMENT
$25,000
20,000
15,000
10,000
5,000
0
DOLLARS
12%
11
10
9
8
7
6
5
4
3
2
1
0
PERCENTAGE
RATE OF RETURN
NET INCOME AFTER DEPRECIATION
DEPRECIATION
1913
'15
'20
'25
'30
'35
'40
'45
'50

INCOME, PROPERTY EXPENSES, DEPRECIATION AND NET RETURN

(cont. from page 195)

going above 9 per cent in 1922 and 1923. While there is a natural lag between actual construction and the incentive to build estimated to be between two to three years, it is surprising to know that 71 per cent of the apartment properties in the United States were built between 1925 and 1930, after the incentive to build had declined. This was due primarily to the large amount of money available, to the popularity of the now infamous 6 per cent gold bonds, to the now unbelievable claims of the property prospectus and also to the high financing fees and profits to the mortgage banker. The incentive of net return was forgotten in that easy money period.

Prior to 1920 and after 1927 there has been little incentive to build comparable apartment properties in St. Louis. By 1938 and 1939 apartment vacancies had gradually been absorbed to 7 per cent. In spite of this surplus, two ill-advised apartment projects containing nearly 1000 apartment units were financed and insured by FHA at a time when there was no need for them. The construction of these projects merely added to the existing surplus. Both projects were in bad shape and were foreclosed in 1940. Later war activity, with the housing shortage, restored some of the original value.

Since 1942 under rent control there has been little income incentive for private enterprise to build apartment properties comparable to the thirty-family apartment under discussion, even if war restrictions had been removed. Despite a very high occupancy the net return after depreciation was under 4 per cent from 1942 to June 1945.

In the postwar period unless construction costs can be materially reduced or net income greatly increased, there will be little incentive to build new income types of residential properties by private enterprise. The relation between expected net income and the cost of construction is all-important to private enterprise in the construction of such apartment projects, although there are many bureaucrats who are advocating higher wages and continued rent control at present levels. If higher wages are paid, rents must also be raised to furnish the necessary incentive to build.

Assuming, for purposes of appraising, that present rental levels were to continue in the future and an average vacancy allowance of 10 per cent were provided, this apartment is estimated to have an economic value of $102,500 today, although the cost of land and improvement is estimated at $198,701 (see June 1945 Analyst). Under such assumptions a subsidy would be necessary before private enterprise would undertake the construction of this apartment.

THE POST WAR PRICE LEVEL

(cont. from page 191)

in the United States from 1860 to the present. Average wages as shown by this chart have gone from the lower left hand corner of the top panel to the upper right hand corner, an increase far greater than any of the other lines on the chart. Wages ordinarily increase by the same percentage as the increase in efficiency. When wages increase faster than this, the gain to the wage earner is illusionary, as prices will increase at the same time by a sufficient amount to offset the supposed rise in purchasing power.

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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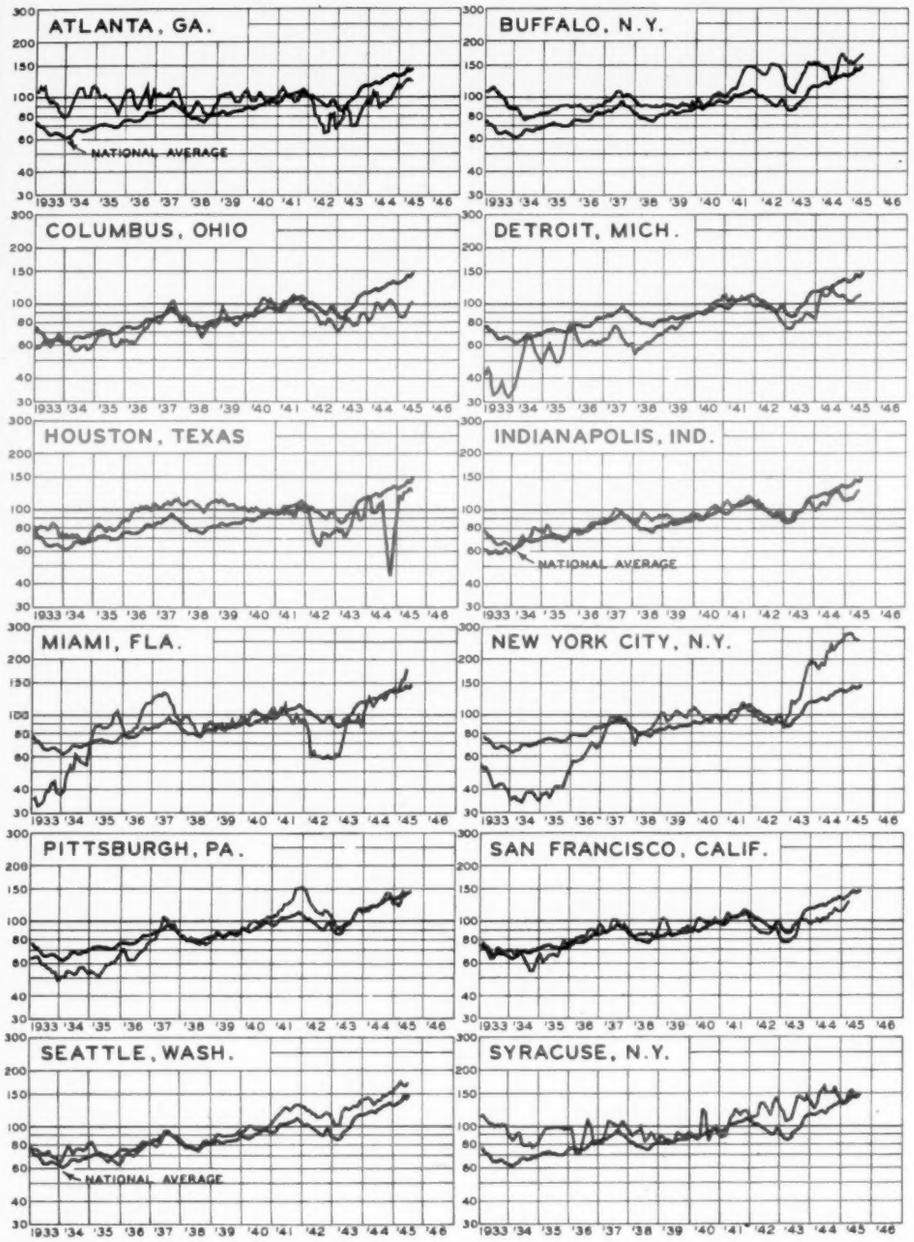

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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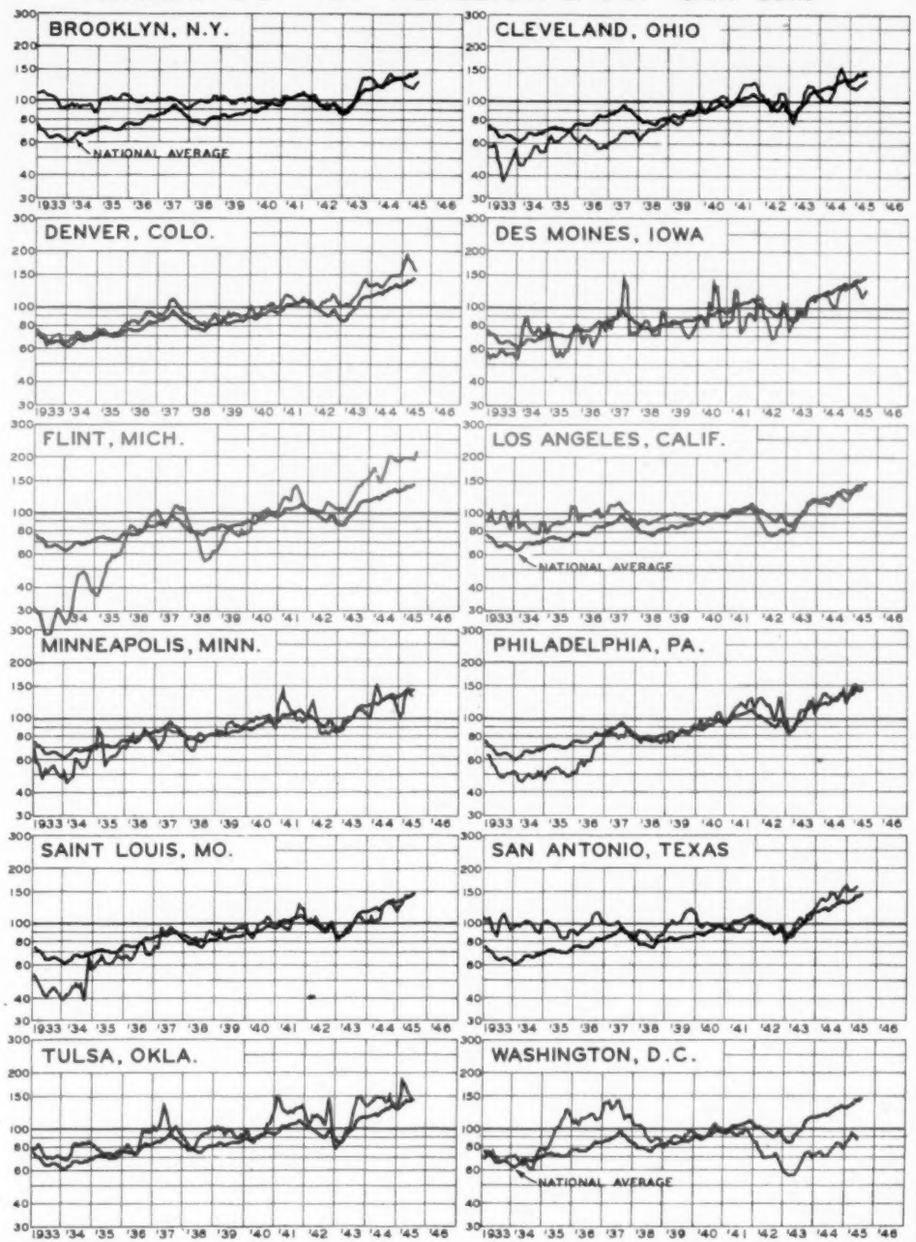
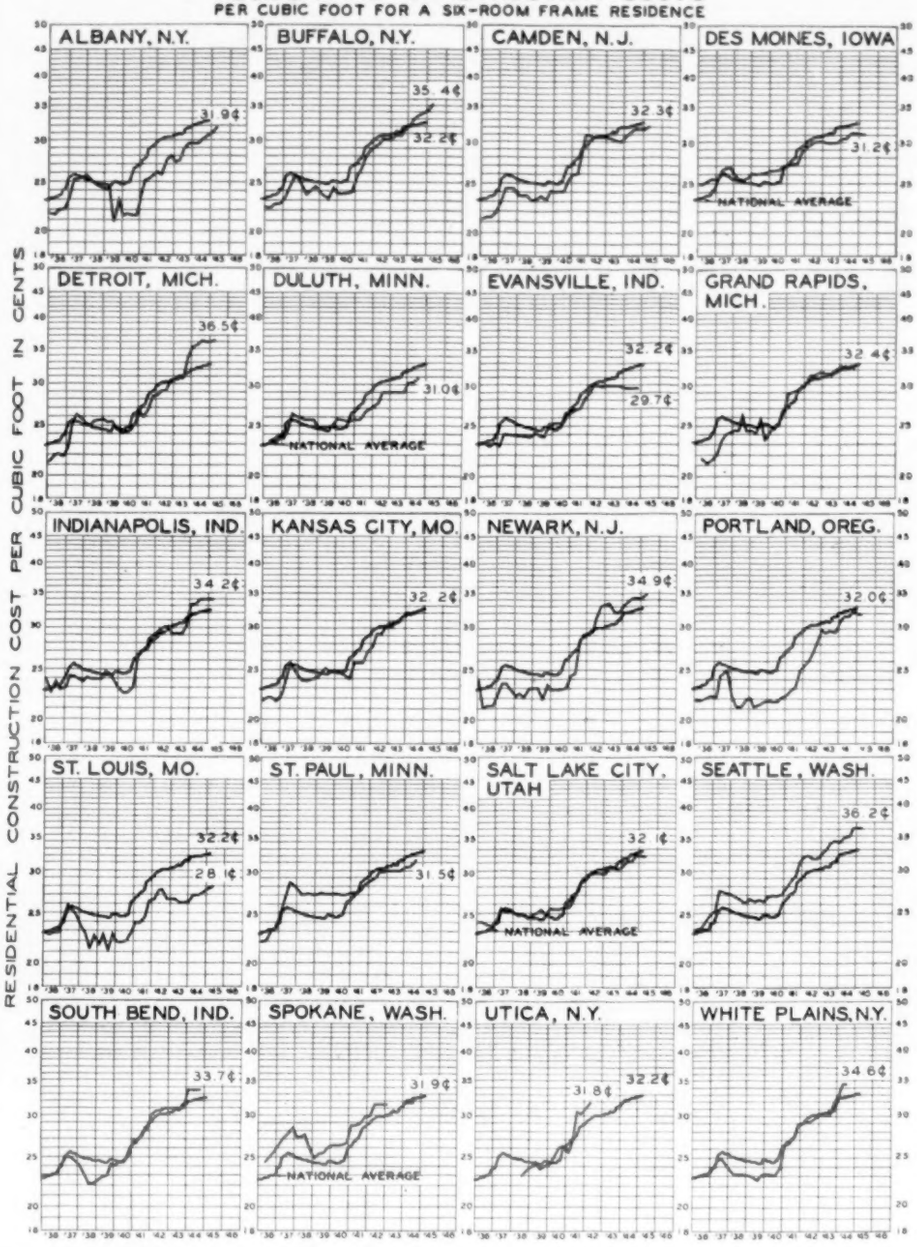
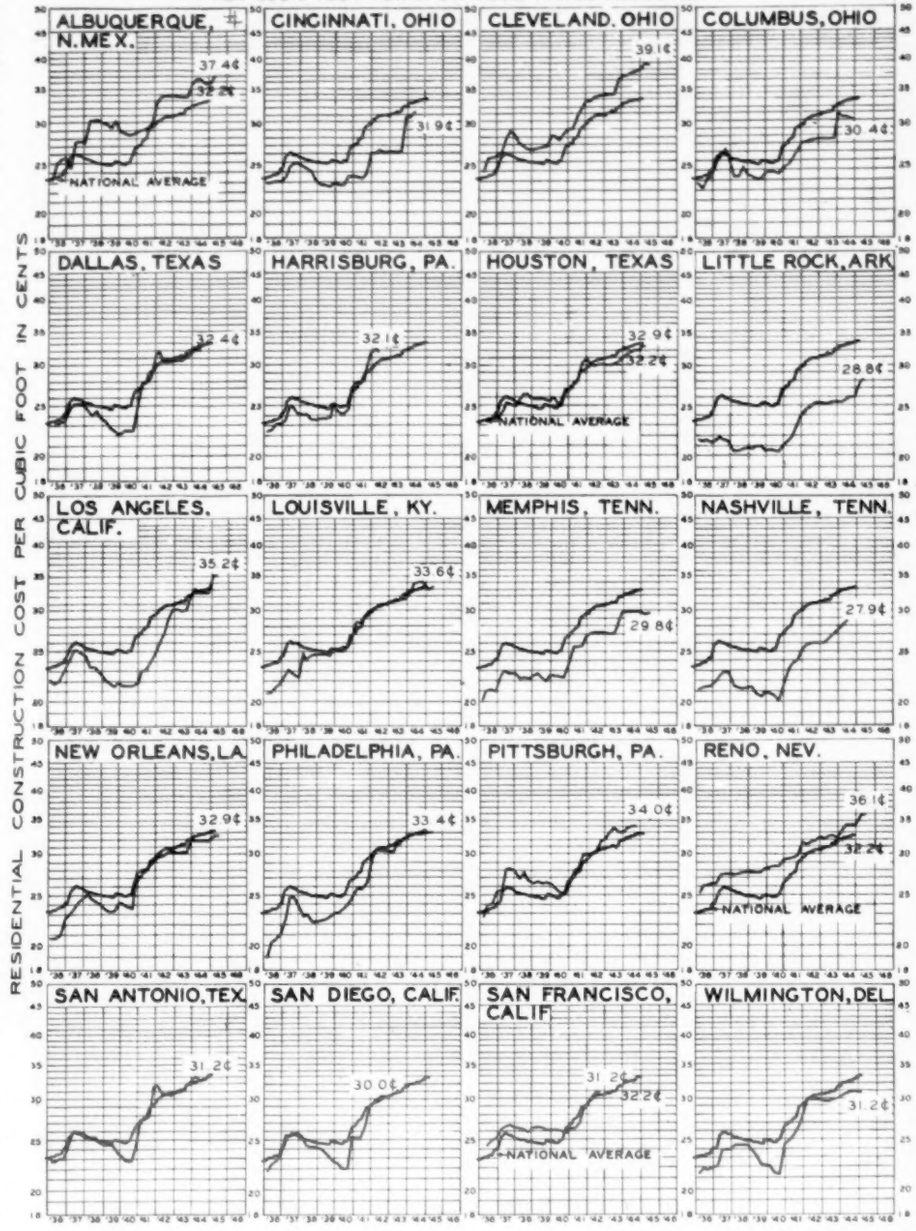


RESIDENTIAL CONSTRUCTION COSTS
PER CUBIC FOOT FOR A SIX-ROOM FRAME RESIDENCE

RESIDENTIAL CONSTRUCTION COST PER CUBIC FOOT IN CENTS



RESIDENTIAL CONSTRUCTION COSTS
PER CUBIC FOOT FOR A SIX-ROOM FRAME RESIDENCE

RESIDENTIAL CONSTRUCTION COST PER CUBIC FOOT IN CENTS